

CITY OF WINTERSET  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2004

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City of Winterset

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Jerry Schwertfeger	Mayor	Jan 2004
Jim Olson	Council Member/Mayor Pro tem	Jan 2004
Howard Harrell	Council Member	Jan 2004
Mary Ann Orr	Council Member	Jan 2004
Steve Montross	Council Member	Jan 2006
Edmund Seaward	Council Member	Jan 2006
(After January 2004)		
Jerry Schwertfeger	Mayor	Jan 2006
Jim Olson	Council Member/Mayor Pro tem	Jan 2008
Steve Montross	Council Member	Jan 2006
Edmund Seaward	Council Member	Jan 2006
Anthony Golightly	Council Member	Jan 2008
Mary Ann Orr	Council Member	Jan 2008
Mark Nitchals	City Administrator	Indefinite
John Casper	Attorney	Indefinite

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City of Winterset

# CLINE, DeVRIES & ALLEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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### Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying primary government financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winterset, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These primary government financial statements are the responsibility of the City of Winterset's management. Our responsibility is to express opinions on these primary government financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these primary government financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. Such legally separate entities are referred to as component units.

In our opinion, the primary government financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Winterset as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 15, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated November 17, 2004 on our consideration of the City of Winterset's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with

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Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements.

Budgetary comparison information on pages 25 through 26 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the primary government financial statements that collectively comprise the City of Winterset's primary government financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the primary government financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those primary government financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the primary government financial statements. Such information has been subjected to the auditing procedures applied in our audit of the primary government financial statements and, in our opinion, is fairly stated in all material respects in relation to the primary government financial statements taken as a whole.

November 17, 2004  
Ames, Iowa

City of Winterset

## Basic Financial Statements



City of Winterset

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

		Program Receipts		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
	Disbursements	Service		
Functions / Programs:				
Governmental activities:				
Public safety	\$ 697,160	20,916	73,925	2,556
Public works	490,767	140,364	402,381	4,671
Health and social services	3,000	-	-	-
Culture and recreation	674,700	152,048	37,576	2,313
Community and economic development	176,802	16,012	20,517	-
General government	318,477	-	-	16,666
Debt service	1,050,868	-	2,776	-
Capital projects	264,334	-	-	-
Business type activities	844,185	854,335	-	-
Total governmental activities	4,520,293	1,183,675	537,175	26,206
Business type activities:				
Sewer	873,359	766,359	47,163	18,200
Total	\$ 5,393,652	1,950,034	584,338	44,406
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Employee benefits				
Debt service				
Emergency				
Hotel/motel tax				
Payment in lieu of taxes				
Bank franchise tax				
Unrestricted interest on investments				
Miscellaneous				
Sale of assets				
Total general receipts				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service/maintenance				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(599,763)	-	(599,763)
56,649	-	56,649
(3,000)	-	(3,000)
(482,763)	-	(482,763)
(140,273)	-	(140,273)
(301,811)	-	(301,811)
(1,048,092)	-	(1,048,092)
(264,334)	-	(264,334)
10,150	-	-
(2,773,237)	-	(2,773,237)
-	(41,637)	(41,637)
(2,773,237)	(41,637)	(2,814,874)
927,139	-	927,139
812,891	-	812,891
363,040	-	363,040
384,332	-	384,332
25,755	-	25,755
22,273	-	22,273
190,000	-	190,000
16,571	-	16,571
14,503	-	14,503
22,587	3,437	26,024
7,303	-	7,303
2,786,394	3,437	2,789,831
13,157	(38,200)	(25,043)
1,020,778	3,029,307	4,050,085
\$ 1,033,935	2,991,107	4,025,042
\$ 123,233	-	123,233
380,541	-	380,541
447,910	623,732	1,071,642
79,394	-	79,394
2,857	2,367,375	2,370,232
\$ 1,033,935	2,991,107	4,025,042

City of Winterset

Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2004

		Special		
	General	Road Use Tax	Tax Increment Financing	Utility Reimbursement
Receipts:				
Property tax	\$ 927,139	-	-	-
Tax increment financing collections	-	-	812,891	-
Other city tax	22,273	-	-	-
Licenses and permits	29,601	-	-	-
Use of money and property	14,503	-	-	-
Intergovernmental	318,072	397,115	-	-
Charges for service	114,537	-	-	-
Special assessments	-	-	-	-
Miscellaneous	62,609	-	-	862,491
Total receipts	1,488,734	397,115	812,891	862,491
Disbursements:				
Operating:				
Public safety	549,755	-	-	-
Public works	34,365	395,941	-	-
Health and social services	3,000	-	-	-
Culture and recreation	558,080	-	-	-
Community and economic development	45,245	-	112,276	-
General government	236,905	-	-	45,743
Debt service	-	-	-	-
Capital projects	-	-	-	-
Business type activities	-	-	-	844,185
Total disbursements	1,427,350	395,941	112,276	889,928
Excess (deficiency) of receipts over (under) disbursements	61,384	1,174	700,615	(27,437)
Other financing sources (uses):				
Sale of capital assets	7,303	-	-	-
Operating transfers in	25,755	-	2,535	27,437
Operating transfers out	(59,075)	-	(541,539)	-
Total other financing sources (uses)	(26,017)	-	(539,004)	27,437
Net change in cash balances	35,367	1,174	161,611	-
Cash balances beginning of year	177,213	122,059	218,930	-
Cash balances end of year	\$ 212,580	123,233	380,541	-
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	212,580	-	-	-
Special revenue funds	-	123,233	380,541	-
Capital projects funds	-	-	-	-
Total cash basis fund balances	\$ 212,580	123,233	380,541	-

See notes to financial statements.

Revenue	Debt Service		Other		
Employee	Tax Increment	General	Nonmajor		
Benefits	Financing	Obligation	Governmental		
	Reserve	Bonds/Notes	Funds		Total
363,040	-	384,332	25,755		1,700,266
-	-	-	-		812,891
-	-	-	-		22,273
-	-	-	-		29,601
-	-	-	113		14,616
-	-	-	17,888		733,075
-	-	-	-		114,537
-	-	-	137,024		137,024
5,266	-	2,776	28,722		961,864
368,306	-	387,108	209,502		4,526,147
147,405	-	-	-		697,160
60,461	-	-	-		490,767
-	-	-	-		3,000
116,620	-	-	-		674,700
-	-	-	19,281		176,802
35,829	-	-	-		318,477
-	-	542,245	508,623		1,050,868
-	-	-	264,334		264,334
-	-	-	-		844,185
360,315	-	542,245	792,238		4,520,293
7,991	-	(155,137)	(582,736)		5,854
-	-	-	-		7,303
-	22,000	135,986	424,465		638,178
-	-	-	(37,564)		(638,178)
-	22,000	135,986	386,901		7,303
7,991	22,000	(19,151)	(195,835)		13,157
63,539	240,000	24,255	174,782		1,020,778
71,530	262,000	5,104	(21,053)		1,033,935
-	262,000	5,104	180,806		447,910
-	-	-	-		212,580
71,530	-	-	7,864		583,168
-	-	-	(209,723)		(209,723)
71,530	262,000	5,104	(21,053)		1,033,935

City of Winterset  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2004

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Use of money and property	\$ 47,163
Intergovernmental	18,200
Charges for service	766,359
Miscellaneous	3,437
Total operating receipts	<u>835,159</u>
Operating disbursements:	
Business type activities	<u>421,733</u>
Excess (deficiency) of operating receipts (over) under operating disbursements	<u>413,426</u>
Non-operating receipts (disbursements):	
Debt service	<u>(451,626)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(38,200)</u>
Cash balances beginning of year	<u>3,029,307</u>
Cash balances end of year	<u>\$ 2,991,107</u>
Cash Basis Fund Balances	
Reserved for debt service/maintenance	\$ 623,732
Unreserved	<u>2,367,375</u>
Total cash basis fund balances	<u>\$ 2,991,107</u>

See notes to financial statements.

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City of Winterset

City of Winterset

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Winterset is a political subdivision of the State of Iowa located in Madison County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides sewer service for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Winterset has included all funds, organizations, agencies, boards, commissions and authorities, except for its component unit, the Winterset Municipal Utilities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's primary government financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These primary government financial statements present the City of Winterset (the primary government) and exclude the component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. It has not been included in these primary government financial statements which present the primary government only. Complete financial statements of the individual component unit, which issued separate financial statements as noted below, can be obtained from its administrative office.

Component Unit

The Winterset Municipal Utilities is a component unit of the City of Winterset and is not presented in these primary government financial statements. It is legally separate from the City, but is financially accountable to the City. The Utilities is governed by a three member Board appointed by the City Council and the Utilities' operating budget is subject to the approval of the City Council.

### Jointly Governed Organizations

The City participates in a few jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commission: County Emergency Management Commission, Central Iowa Regional Transportation Planning Alliance Board, and the Fire Mutual Aid Executive Board.

The City also participates in a joint venture. The City has an official that is a member of the South Central Iowa Landfill Agency Board. The City has an ongoing financial responsibility. (See Note 9)

### B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement



to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Tax Increment Financing Fund is used to account for urban renewal projects financed by tax increment financing.

The Tax Increment Financing Reserve Fund is used to account for the reserve funds the City is required to maintain for the tax increment financing debt.

The Employee Benefits Fund is used to account for payments for employee benefits of those employees whose salary is paid from the General Fund or Road Use Tax Fund.

Debt Service:

The General Obligation Bonds/Notes Fund is used to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Winterset maintains its financial records on the basis of cash receipts and disbursements and the primary government financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the primary government financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

The City's investments at June 30, 2004 are as follows:

Type	Carrying Amount	Fair Value
U.S. government securities	\$ 2,361,258	2,352,298

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes, sewer refunding notes, special assessment notes, urban renewal tax increment financing bonds, revenue notes, and state revolving loans are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Sewer Refunding Notes		Special Assessment Capital Loan Notes	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 90,000	31,155	355,000	128,760	-	79,298	65,000	27,680
2006	80,000	26,498	370,000	117,508	275,000	79,298	70,000	24,822
2007	80,000	22,502	280,000	104,793	285,000	73,110	70,000	21,806
2008	80,000	18,445	290,000	93,431	295,000	65,700	70,000	18,672
2009	65,000	14,325	300,000	81,281	300,000	57,145	55,000	15,433
2010-2014	165,000	33,872	1,370,000	205,680	1,300,000	123,745	205,000	44,275
2015-2016	-	-	130,000	6,760	-	-	50,000	4,180
Total	\$ 560,000	146,797	3,095,000	738,213	2,455,000	478,296	585,000	156,868

Year Ending June 30,	Urban Renewal Tax Increment Financing Revenue Bonds		Revenue Notes		State Revolving Loans		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 155,000	216,629	225,000	148,665	43,000	36,926	933,000	669,113
2006	150,000	257,050	235,000	136,290	45,000	35,241	1,225,000	676,707
2007	180,000	267,050	250,000	123,130	47,000	33,477	1,192,000	645,868
2008	195,000	260,197	265,000	109,005	49,000	31,634	1,244,000	597,084
2009	200,000	252,635	280,000	93,900	50,000	29,714	1,250,000	544,433
2010-2014	1,970,000	2,257,103	1,285,000	201,095	285,000	117,326	6,580,000	2,983,096
2015-2019	410,000	434,190	-	-	346,000	56,762	936,000	501,892
2020	-	-	-	-	77,000	3,018	77,000	3,018
Total	\$ 3,260,000	3,944,854	2,540,000	812,085	942,000	344,098	13,437,000	6,621,211

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City, however the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to the sewer revenue bond sinking account for the purpose of making the note principal and interest payments when due.
- c) Additional monthly reserve transfers of \$10,000 shall be made to a sewer system improvement account until a minimum of \$240,000 is accumulated. This account is restricted for the purpose of paying for deficiencies to the sinking

accounts, payments of the note principal and interest and for any additional improvements or extensions.

- d) A sum of \$300,000 shall be set apart and put into a reserve account. Any deficiencies in the reserve account shall be reimbursed from the net operating revenues of the sewer fund after its required contributions to the sinking and improvement reserve accounts.

The resolutions providing for the issuance of the State Revolving Loans include the following provision:

Sufficient monthly transfers shall be made to the sewer revenue bond sinking account for the purpose of making loan principal and interest payments when due.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$62,189, \$58,483 and \$59,830, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave, compensatory and personal hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. Sick leave is only paid out at retirement and is limited to twenty-five percent of the employees accrual. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 59,103
Sick leave	51,370
Compensatory and personal time	4,347
Total	<u>\$ 114,820</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Emergency Fund	\$ 25,755
Special Revenue: TIF Reserve	Special Revenue: Tax Increment Financing	22,000
Tax Increment Financing	Debt Service: Tax Increment Financing Bonds	2,535
		<u>24,535</u>
Debt Service: General Obligation Bonds/Notes	General	31,638
	Special Revenue: Tax Increment Financing	95,074
	Debt Service: Special Assessment Bonds/Notes	9,274
		<u>135,986</u>
Capital Projects: City Hall Project	Special Revenue: Tax Increment Financing	7,890
Total		<u>\$ 194,166</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$1,021 during the year ended June 30, 2004.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) South Central Iowa Landfill

The City, in conjunction with the City of Indianola and Madison County, has created the South Central Iowa Landfill Agency. The Agency was established for the primary purpose of providing for the collection and disposal of solid waste produced or generated by each participant. On dissolution of the corporation, the net assets of the Agency will be prorated among the municipalities. The Agency is governed by a board

composed of elected representatives of the governing body of each participating governmental jurisdiction.

The Agency may not be accumulating sufficient financial resources and the municipalities may be obligated for a proportionate share of the debt, therefore, the City has an ongoing financial obligation.

Completed financial statements for the Agency can be obtained from the Agency.

(10) Community Development Block Grant (CDBG)

On November 15, 2001, the City entered into a CDBG Program Economic Development Set-Aside Contract with the Iowa Department of Economic Development (IDED). The Program consists of two loans that were passed thru to Three D Industries, L.L.C. The first loan is a \$50,000 loan with an interest rate of 2%. The loan is to be repaid over a five year term. The second loan is a forgivable loan with 0% interest and a two year term. The second loan shall be forgiven upon satisfactory completion of the performance targets specified in the agreement.

(11) Deficit Fund Balances

The City had the following deficit balances at June 30, 2004:

Capital Projects Funds	Sidewalk Project	2,196
	Aquatic Center Project	1,000
	Paving Project	103,149
	Downtown Improvement Project	143,132

(12) Construction Commitment

The City has entered into a construction contract totaling \$951,092, none of which has been paid as of June 30, 2004.

(13) Litigation

The City is subject to pending litigation seeking damages of approximately \$3,000. The probability of loss if any, is undeterminable.

(14) Subsequent Events

In July 2004, the City issued \$1,150,000 in short-term warrants maturing in June 2005 for street improvements.

The City is also named as a defendant in a lawsuit filed on September 9, 2004. The case involves an arrest in which the plaintiff is alleging assault and battery, false arrest, negligence, and violation of civil rights. The case is still in the early stages and probability of loss if any, is undeterminable.

In November 2004, the City approved exercising a purchase option for land for the new aquatic center.

(15) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

## Required Supplementary Information



City of Winterset  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Final to Net Variance
				Original	Final	
Receipts:						
Property tax	\$ 1,700,266	-	1,700,266	1,671,961	1,671,961	28,305
Tax increment financing collections	812,891	-	812,891	772,000	772,000	40,891
Other city tax	22,273	-	22,273	58,145	58,145	(35,872)
Licenses and permits	29,601	-	29,601	21,500	21,500	8,101
Use of money and property	14,616	47,163	61,779	28,000	28,000	33,779
Intergovernmental	733,075	18,200	751,275	577,920	577,920	173,355
Charges for service	114,537	766,359	880,896	943,550	943,550	(62,654)
Special assessments	137,024	-	137,024	126,000	126,000	11,024
Miscellaneous	961,864	3,437	965,301	217,434	235,434	729,867
Total receipts	4,526,147	835,159	5,361,306	4,416,510	4,434,510	926,796
Disbursements:						
Public safety	697,160	-	697,160	728,807	716,057	18,897
Public works	490,767	-	490,767	504,567	504,567	13,800
Health and social services	3,000	-	3,000	3,000	3,000	-
Culture and recreation	674,700	-	674,700	684,345	685,845	11,145
Community and economic development	176,802	-	176,802	158,150	158,150	(18,652)
General government	318,477	-	318,477	307,950	325,950	7,473
Debt service	1,050,868	-	1,050,868	1,004,680	1,050,872	4
Capital projects	264,334	-	264,334	844,000	844,000	579,666
Business type activities	844,185	873,359	1,717,544	772,216	772,216	(945,328)
Total disbursements	4,520,293	873,359	5,393,652	5,007,715	5,060,657	(332,995)
Excess (deficiency) of receipts over (under) disbursements	5,854	(38,200)	(32,346)	(591,205)	(626,147)	593,801
Other financing sources, net	7,303	-	7,303	869,000	869,000	(861,697)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	13,157	(38,200)	(25,043)	277,795	242,853	(267,896)
Balances beginning of year	1,020,778	3,029,307	4,050,085	1,633,029	1,648,249	2,401,836
Balances end of year	\$ 1,033,935	2,991,107	4,025,042	1,910,824	1,891,102	2,133,940

See accompanying independent auditors' report.

City of Winterset

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$18,000 and \$52,942, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the community and economic development and business type activities functions.

Disbursements exceeded the amount budgeted in the business type activities function because the City began paying the Winterset Municipal Utilities payroll during the year ended June 30, 2004. They were reimbursed in full by the Utilities, but this activity was not included in the budget. All of the activity is recorded in the Special Revenue, Utility Reimbursement Fund.

Disbursements exceeded the amount budgeted in the community and economic development function because disbursements of \$19,281 for economic development were budgeted for in the capital projects function.

## Other Supplementary Information

City of Winterset

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue		Debt Service		Capital	
	CEBA/TIF Revenue	Emergency Fund	Tax Increment Financing Bonds	Special Assessments	Police Special Project	Parks and Recreation Improvement Project
Receipts:						
Property tax	\$ -	25,755	-	-	-	-
Use of money and property	-	-	-	-	-	113
Intergovernmental	17,888	-	-	-	-	-
Special assessments	-	-	-	137,024	-	-
Miscellaneous	2,629	-	-	-	2,556	2,200
Total receipts	20,517	25,755	-	137,024	2,556	2,313
Disbursements:						
Operating:						
Community and economic development	19,281	-	-	-	-	-
Debt service	-	-	416,575	92,048	-	-
Capital projects	-	-	-	-	-	2,242
Total disbursements	19,281	-	416,575	92,048	-	2,242
Excess (deficiency) of receipts over (under) disbursements	1,236	25,755	(416,575)	44,976	2,556	71
Other financing sources (uses):						
Operating transfers in	-	-	416,575	-	-	-
Operating transfers out	-	(25,755)	(2,535)	(9,274)	-	-
Total other financing sources (uses):	-	(25,755)	414,040	(9,274)	-	-
Net change in cash balances	1,236	-	(2,535)	35,702	2,556	71
Cash balances beginning of year	6,628	-	2,535	145,104	-	13,752
Cash balances end of year	\$ 7,864	-	-	180,806	2,556	13,823
Cash Basis Fund Balances						
Unreserved:						
Special revenue fund	\$ 7,864	-	-	-	-	-
Debt service fund	-	-	-	180,806	-	-
Capital projects funds	-	-	-	-	2,556	13,823
Total cash basis fund balances	\$ 7,864	-	-	180,806	2,556	13,823

See accompanying independent auditors' report.

Projects						
Housing Project	Sidewalk Project	Aquatic Center Project	Paving Project	Downtown Improvement Project	City Hall Project	Total
-	-	-	-	-	-	25,755
-	-	-	-	-	-	113
-	-	-	-	-	-	17,888
-	-	-	-	-	-	137,024
-	4,671	-	-	-	16,666	28,722
-	4,671	-	-	-	16,666	209,502
-	-	-	-	-	-	19,281
-	-	-	-	-	-	508,623
19,641	6,435	1,000	100,836	84,264	49,916	264,334
19,641	6,435	1,000	100,836	84,264	49,916	792,238
(19,641)	(1,764)	(1,000)	(100,836)	(84,264)	(33,250)	(582,736)
-	-	-	-	-	7,890	424,465
-	-	-	-	-	-	(37,564)
-	-	-	-	-	7,890	386,901
(19,641)	(1,764)	(1,000)	(100,836)	(84,264)	(25,360)	(195,835)
43,016	(432)	-	(2,313)	(58,868)	25,360	174,782
23,375	(2,196)	(1,000)	(103,149)	(143,132)	-	(21,053)
-	-	-	-	-	-	7,864
-	-	-	-	-	-	180,806
23,375	(2,196)	(1,000)	(103,149)	(143,132)	-	(209,723)
23,375	(2,196)	(1,000)	(103,149)	(143,132)	-	(21,053)

City of Winterset  
Schedule of Indebtedness  
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Economic development	Feb 1, 1995	5.75-6.80%	\$ 130,000
General corporate purpose	Mar 1, 1998	4.10-4.80%	180,000
Airport improvement	Dec 1, 1998	5.50-6.75%	375,000
General corporate purpose	Apr 1, 1999	4.10-4.70%	325,000
Total			
General obligation notes:			
Sewer improvements	Aug 1, 1999	4.25-5.20%	\$ 1,435,000
Street improvements	Apr 1, 2000	5.00-5.60%	290,000
General corporate purpose	Oct 1, 2001	3.75-4.70%	885,000
General corporate purpose	May 1, 2003	1.50-3.85%	1,100,000
Total			
Special assessment capital loan notes:			
Street improvements	May 1, 1998	4.50-5.20%	\$ 130,000
Street improvements	May 1, 1999	4.50-5.05%	141,000
Street improvements	Apr 1, 2000	5.20-6.60%	84,000
Paving project	May 1, 2001	4.50-5.90%	255,000
Street improvements	May 1, 2003	1.50-4.20%	188,000
Total			
Revenue bonds:			
Urban Renewal Tax Increment	May 1, 1992	6.50%	\$ 600,000
Urban Renewal Tax Increment	Mar 1, 1993	6.00%	200,000
Urban Renewal Tax Increment	May 1, 1994	4.55-6.05%	225,000
Urban Renewal Tax Increment	Oct 31, 1997	8.25%	250,000
Urban Renewal Tax Increment	Apr 1, 1998	6.50%	145,000
Urban Renewal Tax Increment	Dec 28, 1999	6.50%	200,000
Urban Renewal Tax Increment	Dec 28, 1999	8.00%	170,000
Urban Renewal Tax Increment	Oct 2, 2000	7.50%	160,000
Urban Renewal Tax Increment	Dec 1, 2000	5.15-5.90%	2,400,000
Total			
Revenue notes:			
Sewer improvements	May 1, 1996	5.50-6.15%	\$ 3,965,000
Sewer refunding corporate purpose	May 1, 2003	2.25-3.90%	2,455,000
Total			
State revolving loans:			
Sewer revenue bonds, Series 2000A	Jan 17, 2000	3.92%	\$ 225,951
Sewer revenue bonds, Series 2000B	Jan 17, 2000	3.92%	874,049
Total			

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
30,000	-	15,000	15,000	2,025	-
100,000	-	20,000	80,000	4,600	-
305,000	-	20,000	285,000	19,360	-
210,000	-	30,000	180,000	9,535	-
<b>\$ 645,000</b>	-	85,000	560,000	35,520	-
1,220,000	-	80,000	1,140,000	59,993	-
240,000	-	25,000	215,000	12,947	-
810,000	-	75,000	735,000	35,060	-
1,100,000	-	95,000	1,005,000	32,511	-
<b>\$ 3,370,000</b>	-	275,000	3,095,000	140,511	-
75,000	-	15,000	60,000	3,825	-
90,000	-	15,000	75,000	4,403	-
70,000	-	5,000	65,000	4,285	-
225,000	-	15,000	210,000	12,030	-
188,000	-	13,000	175,000	3,456	-
<b>\$ 648,000</b>	-	63,000	585,000	27,999	-
80,000	-	80,000	-	5,200	-
75,000	-	35,000	40,000	4,500	-
65,000	-	30,000	35,000	3,902	-
230,000	-	15,000	215,000	18,975	-
125,000	-	5,000	120,000	8,125	-
170,000	-	15,000	155,000	11,050	-
165,000	-	5,000	160,000	13,200	-
160,000	-	5,000	155,000	12,000	-
2,390,000	-	10,000	2,380,000	137,223	-
<b>\$ 3,460,000</b>	-	200,000	3,260,000	214,175	-
2,750,000	-	210,000	2,540,000	160,110	-
2,455,000	-	-	2,455,000	79,298	-
<b>\$ 5,205,000</b>	-	210,000	4,995,000	239,408	-
203,000	-	9,000	194,000	7,958	-
781,000	-	33,000	748,000	30,615	-
<b>\$ 984,000</b>	-	42,000	942,000	38,573	-

City of Winterset  
Schedule of Indebtedness  
Year ended June 30, 2004

Year Ending June 30,	General Obligation Bonds								
	Economic Development		General Corporate Purpose		Airport Improvement		General Corporate Purpose		Total
	Issued Feb 1, 1995		Issued Mar 1, 1998		Issued Dec 1, 1998		Issued Apr 1, 1999		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	
2005	6.80%	\$ 15,000	4.50%	\$ 20,000	5.90%	\$ 20,000	4.45%	\$ 35,000	
2006		-	4.60	20,000	6.00	25,000	4.50	35,000	80,000
2007		-	4.70	20,000	6.10	25,000	4.55	35,000	80,000
2008		-	4.80	20,000	6.20	25,000	4.60	35,000	80,000
2009		-		-	6.30	25,000	4.70	40,000	65,000
2010		-		-	6.40	30,000		-	30,000
2011		-		-	6.50	30,000		-	30,000
2012		-		-	6.60	35,000		-	35,000
2013		-		-	6.65	35,000		-	35,000
2014		-		-	6.75	35,000		-	35,000
Total		\$ 15,000		\$ 80,000		\$ 285,000		\$ 180,000	\$ 560,000

Year Ending June 30,	General Obligation Notes								
	Sewer		Street		General		General		Total
	Improvements		Improvements		Corporate Purpose		Corporate Purpose		
	Issued Aug 1, 1999		Issued Apr 1, 2000		Issued Oct 1, 2001		Issued May 1, 2003		
	Interest		Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount		
2005	4.60%	\$ 80,000	5.25%	\$ 25,000	4.00%	\$ 80,000	1.80%	\$ 170,000	\$ 355,000
2006	4.70	85,000	5.30	30,000	4.10	80,000	2.20	175,000	370,000
2007	4.75	90,000	5.35	30,000	4.20	85,000	2.55	75,000	280,000
2008	4.80	95,000	5.40	30,000	4.30	90,000	2.80	75,000	290,000
2009	4.85	95,000	5.45	30,000	4.40	95,000	3.00	80,000	300,000
2010	4.90	100,000	5.50	35,000	4.50	100,000	3.20	80,000	315,000
2011	5.00	105,000	5.60	35,000	4.60	100,000	3.40	85,000	325,000
2012	5.05	115,000		-	4.70	105,000	3.55	85,000	305,000
2013	5.10	120,000		-		-	3.70	90,000	210,000
2014	5.15	125,000		-		-	3.85	90,000	215,000
2015	5.20	130,000		-		-		-	130,000
Total		\$1,140,000		\$ 215,000		\$ 735,000		\$1,005,000	\$3,095,000

See accompanying independent auditors' report.



Special Assessment Capital Loan Notes											
Year Ending June 30,	Street Improvements		Street Improvements		Street Improvements		Paving Project		Street Improvements		Total
	Issued May 1, 1998		Issued May 1, 1999		Issued Apr 1, 2000		Issued May 1, 2001		Issued May 1, 2003		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2005	5.05%	\$ 15,000	4.80%	\$ 15,000	5.60%	\$ 5,000	4.80%	\$ 15,000	2.00%	\$ 15,000	\$ 65,000
2006	5.10	15,000	4.85	15,000	5.70	5,000	4.90	15,000	2.30	20,000	70,000
2007	5.15	15,000	4.90	15,000	5.80	5,000	5.00	15,000	2.75	20,000	70,000
2008	5.20	15,000	5.00	15,000	5.90	5,000	5.10	15,000	3.10	20,000	70,000
2009	-	-	5.05	15,000	6.00	5,000	5.20	15,000	3.40	20,000	55,000
2010	-	-	-	-	6.10	5,000	5.30	15,000	3.60	20,000	40,000
2011	-	-	-	-	6.20	5,000	5.40	20,000	3.80	20,000	45,000
2012	-	-	-	-	6.30	5,000	5.50	20,000	4.00	20,000	45,000
2013	-	-	-	-	6.40	5,000	5.60	20,000	4.20	20,000	45,000
2014	-	-	-	-	6.50	10,000	5.70	20,000	-	-	30,000
2015	-	-	-	-	6.60	10,000	5.80	20,000	-	-	30,000
2016	-	-	-	-	-	-	5.90	20,000	-	-	20,000
Total		\$ 60,000		\$ 75,000		\$ 65,000		\$210,000		\$175,000	\$585,000

Revenue Notes					
Year Ending June 30,	Sewer Refunding Corporate Purpose		Sewer Improvements		
	Issued May 1, 2003		Issued May 1, 1996		
	Interest Rates	Amount	Interest Rates	Amount	Total
2005	-	\$ -	5.50%	\$ 225,000	\$ 225,000
2006	2.25%	275,000	5.60	235,000	510,000
2007	2.60	285,000	5.65	250,000	535,000
2008	2.90	295,000	5.70	265,000	560,000
2009	3.15	300,000	5.80	280,000	580,000
2010	3.40	310,000	5.90	295,000	605,000
2011	3.60	320,000	6.00	310,000	630,000
2012	3.75	330,000	6.10	330,000	660,000
2013	3.90	340,000	6.15	350,000	690,000
Total		\$ 2,455,000		\$ 2,540,000	\$ 4,995,000

City of Winterset  
Schedule of Indebtedness  
Year ended June 30, 2004

Year Ending June 30,	Issued Mar 1, 1993		Issued May 1, 1994		Issued Oct 31, 1997		Urban Renewal Issued Apr 1, 1998	
	Interest		Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount
2005	6.00%	\$40,000	6.05%	\$ 35,000	8.25%	\$ 20,000	6.50%	\$ 5,000
2006		-		-	8.25	20,000	6.50	25,000
2007		-		-	8.25	25,000	6.50	30,000
2008		-		-	8.25	25,000	6.50	30,000
2009		-		-	8.25	25,000	6.50	30,000
2010		-		-	8.25	30,000		-
2011		-		-	8.25	35,000		-
2012		-		-	8.25	35,000		-
2013		-		-		-		-
2014		-		-		-		-
2015		-		-		-		-
Total		<u>\$40,000</u>		<u>\$ 35,000</u>		<u>\$ 215,000</u>		<u>\$ 120,000</u>

Year Ending June 30,	State Revolving Loans				
	Sewer Revenue Bonds		Sewer Revenue Bonds		Total
	Series 2000A		Series 2000B		
	Issued Jan 17, 2000		Issued Jan 17, 2000		
	Interest Rates	Amount	Interest Rates	Amount	
2005	3.92%	\$ 9,000	3.92%	\$ 34,000	\$ 43,000
2006	3.92	9,000	3.92	36,000	45,000
2007	3.92	10,000	3.92	37,000	47,000
2008	3.92	10,000	3.92	39,000	49,000
2009	3.92	10,000	3.92	40,000	50,000
2010	3.92	11,000	3.92	42,000	53,000
2011	3.92	11,000	3.92	43,000	54,000
2012	3.92	12,000	3.92	45,000	57,000
2013	3.92	12,000	3.92	47,000	59,000
2014	3.92	13,000	3.92	49,000	62,000
2015	3.92	13,000	3.92	51,000	64,000
2016	3.92	14,000	3.92	53,000	67,000
2017	3.92	14,000	3.92	55,000	69,000
2018	3.92	15,000	3.92	57,000	72,000
2019	3.92	15,000	3.92	59,000	74,000
2020	3.92	16,000	3.92	61,000	77,000
Total		\$ 194,000		\$ 748,000	\$ 942,000

(TIF) Revenue Bonds

<u>Issued Dec 28, 1999</u>		<u>Issued Dec 28, 1999</u>		<u>Issued Oct 2, 2000</u>		<u>Issued Dec 1, 2000</u>		
Interest		Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total
6.50%	\$ 15,000	8.00%	\$ 15,000	7.50%	\$ 15,000	5.35%	\$ 10,000	\$ 155,000
6.50	20,000	8.00	20,000	7.50	15,000	5.40	50,000	150,000
6.50	20,000	8.00	20,000	7.50	15,000	5.45	70,000	180,000
6.50	20,000	8.00	25,000	7.50	20,000	5.50	75,000	195,000
6.50	25,000	8.00	25,000	7.50	20,000	5.55	75,000	200,000
6.50	25,000	8.00	25,000	7.50	20,000	5.60	285,000	385,000
6.50	30,000	8.00	30,000		25,000	5.70	300,000	420,000
-	-	-	-		25,000	5.75	350,000	410,000
-	-	-	-		-	5.80	365,000	365,000
-	-	-	-		-	5.85	390,000	390,000
-	-	-	-		-	5.90	410,000	410,000
	<u>\$ 155,000</u>		<u>\$ 160,000</u>		<u>\$ 155,000</u>		<u>\$ 2,380,000</u>	<u>\$3,260,000</u>

## City of Winterset

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Year

	<u>2004</u>
Receipts:	
Property tax	\$ 1,700,266
Tax increment financing collections	812,891
Other city tax	22,273
Licenses and permits	29,601
Use of money and property	14,616
Intergovernmental	733,075
Charges for service	114,537
Special assessments	137,024
Miscellaneous	<u>961,864</u>
Total	<u>\$ 4,526,147</u>
Disbursements:	
Operating:	
Public safety	\$ 697,160
Public works	490,767
Health and social services	3,000
Culture and recreation	674,700
Community and economic development	176,802
General government	318,477
Debt service	1,050,868
Capital projects	264,334
Business type activities	<u>844,185</u>
Total	<u>\$ 4,520,293</u>

See accompanying independent auditors' report.

## City of Winterset

## Information Required by the 2003 Sewer Revenue Refunding Notes Resolution

Unaudited

Rate and Number of users of the System –

User Charges – The service charge for sewer is based on water consumed at a rate of \$3.55 per 100 cubic feet. There is a \$7.50 minimum charge.

Number of Users – The City has approximately 1,700 residential users and approximately 250 commercial and industrial users.

Largest Users – The largest sewer customers for the 2003-2004 year were as follows:

Customer	Cubic Feet Sold
Winterset Care Center North	774,200
Star Quality Care Center	611,500
Best Kar Inc. (East)	296,400
Winterset Elementary School	248,600
Winterset Care Center South	235,400
Best Kar Inc. (South)	137,000
Lou and Coe Erpelding	136,700
Super 8 Motel	121,800
Madison County Hospital	119,400
Winterset High School	105,900

See accompanying independent auditors' report.

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City of Winterset

# CLINE, DeVRIES & ALLEN, LLP

## CERTIFIED PUBLIC ACCOUNTANTS

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Ames, Iowa 50010  
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Clive, Iowa 50325  
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### Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Winterset, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 17, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the City of Winterset's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items III-B-04, III-E-04, III-G-04, and III-J-04.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Winterset's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Winterset's ability to record, process, summarize and report financial data

consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-04 and II-B-04.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Winterset and other parties to whom the City of Winterset may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Winterset during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

November 17, 2004  
Ames, Iowa



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City of Winterset

Schedule of Findings

Year Ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including one material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

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City of Winterset

Schedule of Findings

Year Ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that certain functions are not entirely segregated.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Dual Signatures – Although the City approved a resolution requiring dual signatures on all checks issued over \$10,000, we noted that the City did not use dual signatures as required.

Recommendation – The City should comply with their resolution and use dual signatures on all checks issued over \$10,000.

Response – We will do so.

Conclusion – Response accepted.

- II-C-04 Check Signers – An authorized check signer was noted that is not a current employee or official.

Recommendation – The City should contact the bank to remove the individual from the list.

Response – We will do so.

Conclusion – Response accepted.

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City of Winterset

Schedule of Findings

Year Ended June 30, 2004

Part III: Other Findings Related to Statutory Reporting:

- III-A-04 Official Depositories – The City's depository resolution does not distinctly name each depository and specify the maximum amount that may be kept on deposit at each depository as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should approve a new depository resolution that complies with Chapter 12C.2 of the Code of Iowa

Response – We will do so.

Conclusion – Response accepted.

- III-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the community and economic development and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended, budgeted disbursements should have been increased in sufficient amounts so that the budgeted disbursements would not have been exceeded.

Response – Disbursements exceeded the budgeted amount in the business type activities function because the City began paying the Winterset Municipal Utilities payroll during the year ended June 30, 2004. The Utilities reimbursed the City in full, but this activity was not included in the budget. All of the activity is recorded in the Special Revenue, Utility Reimbursement Fund.

Disbursements exceeded the amount budgeted in the community and economic development function because disbursements of \$19,281 for economic development were budgeted for in the capital projects function.

Conclusion – Response accepted.

- III-C-04 Questionable Disbursements – Certain disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursements noted were for refreshments.

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation – The Council should determine and document the public purpose served by these disbursements before authorizing any further

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City of Winterset

Schedule of Findings

Year Ended June 30, 2004

payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

III-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-04 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Mary Ann Orr, Council Member	Purchase of real estate	\$ 500
Montross Pharmacy, Co-owned by Mayor	Miscellaneous supplies	521

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the above individuals do not appear to represent a conflict of interest since total transactions with each individual were less than \$1,500 during the fiscal year.

III-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-04 Council Minutes – Several transactions were found that we believe should have been approved in the Council minutes but were not. These included approval for sales of assets and approval of certain disbursements.

Council minutes were not properly signed in accordance with Chapter 380.7 of the Code of Iowa.

Although minutes of Council proceedings were published, they were not published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. Also, the minutes published did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 380.7 of the Code of Iowa and properly sign all minutes, as required. The City should also comply with Chapter 372.13(6) of the Code of Iowa and publish minutes as required. The City should also approve all asset dispositions and disbursements.

Response – We will do so.

Conclusion – Response accepted.

III-H-04 Revenue Bonds and Notes – The City has complied with the revenue bond and note resolutions.

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City of Winterset

Schedule of Findings

Year Ended June 30, 2004

III-I-04 Deposits and Investments – The City has not updated their investment policy to comply with the provisions of Ch. 12B.10B of the Code of Iowa.

Recommendation – The City should adopt a new investment policy that meets the provisions of the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

III-J-04 Financial Condition – The City had the following deficit balances at June 30, 2004:

Capital Projects Funds	Sidewalk Project	\$ 2,196
	Aquatic Center Project	1,000
	Paving Project	103,149
	Downtown Improvement Project	143,132

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response – We will do so.

Conclusion – Response accepted.